Policy Statement

Service Centers are established for the purpose of providing goods and services to University customers. The centers are expected to offer goods or services that are unique, convenient or not readily available from external sources. The centers may not be subject to external market forces so initial approval and an ongoing review is needed.

Any University department intending to establish a Service Center must submit a written request, approved by the division or school executive officer, to the Vice President for Administration for review. The provision of goods and/or services must be consistent with the University's mission and the normal activities of the school/division associated with the organization.

The costs of the Service Centers can be identified and can be billed to customers based on approved rate(s). The rates charged for goods and services are computed by the Service Centers and are reviewed and approved by the Finance Division. The billing rates are to be set so that the Service Centers will break even over a period of one year. Prior year's surpluses or losses should be included in the next computation of rates. Recurring variances greater than 10 per cent should be resolved with the University Administration Division.

Who Should Know This Policy

1. Provost, Vice Presidents
2. Deans
3. Directors
4. Department Heads & Administrators
5. Principal Investigators
6. Division of Sponsored Programs
7. Administration Divisions and departments

Responsibilities

**Service Center Responsible Person:** Submit a request to establish a new Service Center. Manage the daily operations of the Service Center. Provide competitive rates and services while maintaining break-even margins and necessary fund balances. Prepare an annual budget and provide center financial statements on yearly or more frequent basis. Perform an annual review and rate analysis in time for customers to include any rate adjustments in their next year's budgets. Maintain detailed records supporting charges to internal and external users. Process any charges for services provided to University customers and bill for services provided to external customers.

**Vice Presidents / Provost/Deans:** Approve the establishment of new Service Centers and the continued operation of existing ones. Approve the Service Center's annual budget. Fund any deficits or disallowances created by Service Centers under their direction.

**Property Management Office:** Provide a schedule of items of equipment being depreciated by the Service Center. Identify items of equipment that were purchased from federal funds.

**Finance Division Personnel:** Review and approve the rate calculation for all new Service Centers for accuracy and
consistency with applicable policies and procedures. Monitor the rates for the centers to determine if total billings for services are reasonable compared to the costs of operation. Review the rates periodically to determine if all unallowable costs are being excluded. Notify the center and appropriate administrators if the review identifies practices inconsistent with applicable policies and procedures.

**Procedure For Establishing a Service Center**

A written request to establish a Service Center must be submitted to the Vice President for Administration for review. The request must have been approved by the Dean of the School and the Provost's Office or the appropriate Vice President. The request should include the following information:

1. Description of the services to be provided to customers.
2. Description of who else (in or outside the University), performs these services or sells these goods.
3. Listing of the potential customers, i.e. University departments, Federal grants and contracts, external users.
4. Estimated budget of the proposed Service Center.
5. Copy of the proposed charge-out rates and the rate calculation.
6. Request for accounts recording activity in the Service Center.
7. Name and phone number of the person responsible for financial administration of the Service Center.
8. Account number to be charged should a deficit occur in the center.
9. Anticipated start up date for the center.

**Establishing Billing Rates for Service Centers**

Service Centers should establish a single rate per type of good or service for University customers including Federal grants and contracts. Goods or services, whose billing rates would be prohibitive, may require subsidization from the division, school or other organizational unit authorizing the center's operation. If a subsidy is approved, a portion of the billing rate may be charged to the subsidized funding source in the normal billing cycle or the total amount may be charged to another funding source. Separate billing rates should be established for customers outside the University that include the full costs of providing the goods and services. Billing rates should be reviewed by the Service Centers each year and may be updated when it is apparent that the billings vary by more than 5 percent from the actual costs. Rates charged to University departments should be set to break even. The University is subject to periodic audit by the Federal government to assure that grants and contracts receive the lowest price for goods and services purchased from the University.

**University Rates**

*Current Operating Costs*: The Service Centers will identify all current operating costs for their operation. Any of the operating costs, which are unallowable according to Federal guidelines, will be excluded when the rates are being calculated. These unallowable costs should be recovered from another funding source. External interest payments on borrowed funds may be included in the rate calculation.

*Capital Usage Factors*: Apart from external interest and depreciation, the cost of purchasing capital assets can not be included in the calculation of the billing rates. It is appropriate to include depreciation on the capital assets in the rates. The depreciation should be based on the cost and life of the capital assets and computed on a straight-line basis.

*Prior Year's Surplus or Loss*: Any prior year's surpluses or losses should be included in the rate computation for the next year. If a center is being subsidized by the University it may retain reserves not to exceed the amount of the subsidy and the required depreciation.
External Rates

Separate sales/services billing rates should be developed for external customers. These rates are designed to recover all costs including the unallowable costs excluded above and appropriate overhead costs (i.e. utilities, etc).

Service Center Review and Approval - Review and Approval of New Service Centers

The request to establish a Service Center will be reviewed by Administration utilizing the following criteria:

1. The request is complete and has appropriate approvals.
2. The request includes a statement of purpose, which is consistent with the mission of the University and complies with University policies and procedures.
3. The rate calculations are accurate and adhere to state and federal policies. Federal policy states that billing rates charged to federal programs must not exceed actual costs and must not include unallowable costs.

Administration will provide written notification of the results of the review to the department/unit after the review is completed. The notification will include the financial account numbers that will be assigned to the Service Center.

Review and Approval of Billing Rates for Existing Service Centers

Annually, each Service Center will provide the Finance Division with a report stating whether the center continues to meet its mission statement objectives and the following:

1. Financial statements showing balances and the net income or loss for the fiscal year to date and expected year-end results.
2. The amount billed to Federal grants and contracts.
3. The total volume of activity for the fiscal year to date.
4. The calculation of proposed billing rates for the next year.

The Finance Division will review and monitor the billing rates for all centers. Judgments will be made as to whether total billings for sales and services are reasonable compared to the costs of operation. The rate calculations will be reviewed to determine if all unallowable costs are being excluded. The centers and the appropriate administrators will be notified if the review identifies practices inconsistent with University or Federal policies and procedures.

Establishing Capital Reserve Funds

Separate equipment, buildings and improvements "reserve accounts" should be established to account for the capital related transactions. The following rules apply:

1. Transfers to the equipment reserve account should be based on equipment depreciation costs included in billing rates. Equipment purchased from Federal funds should not be depreciated and included in University billing rates.
2. Transfers to the buildings and improvements reserve account should be based on buildings and improvements depreciation included in billing rates.
3. The equipment reserve account is restricted to equipment expenditures.
4. The buildings and improvements reserve account is restricted to buildings and improvements expenditures.

Record Keeping

The Service Centers will maintain detailed records supporting charges to University and external customers as well
as information required for computing billing rates. These records will include the following:

1. Name of person and department requesting the service.
2. Accounts for internal customers being charged for the service.
3. Description and cost of the services being performed.
4. Names and addresses of the external customers being billed for services.
5. Total volume of activity for University customers, including Federal grants and contracts, and for external customers.

Instructions

Charging rates for the Service Centers are computed annually based on the total costs (both direct and indirect) of the centers. The rate computation includes developing an annual expense budget, identifying the potential users of the goods and services to be provided, allocating the expenses to the centers and dividing by the amount of usage for each cost center. The rates for internal and federal customers should be set so that the revenue does not exceed the actual costs of providing the services. If the Service Center revenue exceeds or falls short of the actual costs for any one year then the next computation of rates must include the over or under recovery of costs from the prior year. All University customers, including Federal grants and contracts, should be charged the same rates.

The annual budget is prepared by estimating the costs of salaries, materials, supplies, depreciation and other expenses necessary to operate the center for the next year. Following are detail instructions relating to the various steps included in the rate calculation flow diagram.

1. **Direct Costs** - these are costs that can be identified directly to each service and could include labor, materials and similar costs.
2. **Indirect Costs** - these are costs that are not readily identifiable to a particular service so they are collected in a separate cost pool and then allocated to each service on some common basis.
3. **Total Costs** - is the total of the direct and indirect costs.
4. **Adjusted Costs** - is the total costs less the equipment purchased, the unallowable costs, and the adjustments for prior year surpluses or losses.
5. **University Rates** - the adjusted costs are divided by the usage (hours, units, etc.) to determine the University rates.
6. **External Rates** - unallowable costs excluded in step 4 are added to the adjusted costs prior to dividing by the usage when computing the rates and then a percentage relating to the appropriate overhead costs is added to the University rates to determine the rates for outside customers.

More detailed information regarding these cost components will be available from the UTD Finance Division.

Policy History

- Issued: 2001-10-15

Policy Links

- Permalink for this policy: http://policy.utdallas.edu/utdbp3033
- Link to PDF version: http://policy.utdallas.edu/pdf/utdbp3033
- Link to printable version: http://policy.utdallas.edu/print/utdbp3033